Local Content Policy and SMEs Sector Promotion: The Nigerian Oil Industry Experience

Ugwushi Bellema IHUA
Kent Business School, University of Kent, Canterbury, CT2 7PE, United Kingdom
E-mail: ihuaub@yahoo.com

Abstract
This study investigates the impact of Nigeria’s oil and gas industry Local Content policy and its implications for promoting higher participation of indigenous small to medium-sized firms within the industry. Here we present finding from multiple case studies conducted on three small to medium-sized firms and five semi-structured interviews conducted with key informants, all operating within the industry. The findings from the study reveals that the local content policy has not yet achieved significant success in enhancing: higher indigenous participation, use of local technology, higher contract awards to indigenous firms and stimulating joint venture arrangements between indigenous and foreign oil firms. Specifically, issues such as lack of the local content Act, cumbersome prequalification and entry requirements, underfunded and ill-equipped educational institutions, laissez-faire attitude of multinationals, ineffective monitoring and control by regulatory authorities, and inadequate financing options for indigenous SMEs still hinder the policy efficacy.

Keywords: SMEs, Nigeria, Local Content Policy, Oil Industry

1. Introduction
Since the late 1950s till date, the Oil and Gas Industry has continued to serve as the main stay of the Nigerian economy. The industry has widely been acknowledged as the nation’s live-wire and literatures abound on its role and significance to the nation (Agusto, 2002; Atakpu, 2007). Furthermore, it is reported that an estimated $8 billion is spent annually on servicing operations within the industry and this figure is projected to hit $15 billion within the next few years (Business Day, 2008). Regrettably, despite these huge sums of money spent in servicing the industry, only very little proportion of the accruable profit is available to indigenous oil servicing firms or spent in developing Nigeria’s industrial base. Majority of the amounts are paid to foreign firms for services such as Fabrication, Engineering Procurement Construction (EPC), Front End Engineering Design (FEED), conceptual designs and seismic studies. This results in capital flight as the profits from the contracts are repatriated abroad, where most of the equipment are manufactured; thus providing employment opportunities for citizens of other countries, and in most cases developed countries.

According to industry experts, the main reason for this situation is attributed to the problem of low local content (LC), which is a situation where most of the service contracts are awarded to foreign firms because local indigenous firms ‘allegedly’ lack the requisite skills, technical expertise, manpower and production capacity and capability to compete favourably (Aneke, 2002; Ariweriokuma, 2009). Oladele (2001) suggested that low LC in the Nigeria is due to: Deficient capitalisation arising from the tendency of Nigerian entrepreneurs to operate as ‘one man’ businesses; Capital and structural deficiencies associated with poor training and low managerial ability; and Inability to attract funds due to lack of suitable collateral and positive corporate image. In addition, Olorunfemi (2001) and Ogiemwonyi (2001) in similar papers articulated the problems of low local content to the inability of commercial banks to provide tenured loans to indigenous firms to execute projects; and that of Nigerian firms to foster appropriate alliances and partnerships with foreign firms, stressing that these collaborations needed to be facilitated by the government and the multinational oil producing firms, respectively. Furthermore, Heum et al. (2003) summarized the reasons for low local content to include low technological capacity; lack of funding from financial institutions; inadequate and incoherent policies/legislations; inadequate infrastructure; unfavourable business climate; lack of partnership between indigenous contractors and technically competent foreign companies.

Historically, Nigerians have had very little share of the country’s oil wealth and there was an urgent need to reverse this trend in the wake of her return to democracy in 1999. To address this anomaly, the Federal Government of Nigeria in early 2000 introduced the Local Content (LC) policy in the oil and gas industry, christened ‘Nigerian Content’ (NC). It was primarily aimed at enhancing increased participation of local
indigenous firms and was targeted as a tool for transforming the industry through the development of in-country capacity and indigenous capabilities in manpower development, facilities and infrastructure towards ensuring higher participation of local indigenous companies actively in the industry (Lawal, 2006; MacPepple, 2002 and Nwapa, 2007).

It was also aimed at reforming the industry into becoming the economic hub for promoting higher SMEs participation, job creation and base for industrial growth; as well as for checking capital flight from the country (Binniyat et al., 2008; Chukwu, 2005 and Gilbert, 2007). The crucial need for this policy was re-emphasised when the Speaker of Nigeria’s House of Representatives was quoted in the media: “it is important to note that while the oil and gas industry clearly dominates the Nigerian economy, a successful local content policy must be apart of a comprehensive industrial and economic growth strategy for Nigeria as a whole… It should include both a plan for domestic capacity building and infrastructure development to broaden the national industrial base…” (Business Day, 2008).

On its part, the SMEs sector has for long been recognised as the back-bone, engine-room and catalyst of economic growth and development in several countries (Ariyo, 1999; Day, 2000; Ihua, 2005). SMEs constitute a major proportion of all the businesses in most countries and play salient roles in the area of wealth creation, provision of products and services, job creation, enhancement of better living standards and contribution to the GDP of both developed and developing countries. Although while SMEs in developed countries tend to be negatively affected by internal factors such as poor management capabilities and ineffective marketing efforts; their counterparts in developing countries such as Nigeria tend to face more challenges from external factors such as unfavourable business climate, inadequate infrastructure and lack of social support (Ihua, 2009; OECD, 2000; Okpara, 2000).

Nonetheless, literature is replete on studies linking entrepreneurship with economic growth; as well as associating the pace of entrepreneurship development with government policy. Researchers have focused on what have been termed “entrepreneurial environments”, referring to certain factors that influence the willingness in individuals to engage in entrepreneurial activities and business start-ups. While these factors include the availability of legal and institutional frameworks, organised markets, skilled manpower, experienced entrepreneurs and the personal possession of certain skills, traits and motivation; nonetheless, the availability of favourable government policy has also been identified as a critical factor to entrepreneurial development (Acs and Armington, 2004; Frese and De Kruif, 2000; Gnyawali and Fogel, 1994; Wennekers and Thurik, 1999). Similarly, it was expected that the LC policy would promote higher participation of small to medium-sized firms within the industry and subsequently enhance value addition to the nation. According to Heum et al. (2003), there exists several opportunities in the industry, through which small firms can seek participation and contribute to economic growth, such as: Fabrication and construction; Well construction and completion; Modification, maintenance and operations; Transportation; Control systems and ICT; Design and engineering; and Consultancy.

Despite these opportunities, the last couple of years have witness mixed reports and speculations among industry stakeholders like the media, multinational firms and regulators, as to the efficacy of the Local Content policy in meeting its objectives. The initial target of the government was to achieve forty-five percent by the end of 2007 and seventy percent by 2010. In 2008 the Nigerian National Petroleum Corporation (NNPC) reported that the policy has succeeded in increasing local content to between thirty-five and forty percent. However, this claim has been refuted by the media, stating that evidence shows that only about 15 to 20 percent local content may have been achieved (Business Day, 2008). It is not clear how the policy was measured or the yardstick applied to generate those results. Nonetheless, we argue that a better way of appraising the policy would be by assessing its implication on different stakeholder groups within the industry. For instance how has the policy impacted on: the nature of contract awards within the industry; the supervisory and monitory activities regulators; biodiversity and environmental management; the promotion of indigenous new entrants or already existing firms within the industry?

In the light of the above, our main research question is: What has been the implication of the LC policy in promoting the higher participation of indigenous Small to Medium-Sized firms in the oil and gas industry? This paper is part of an extended study attempting to appraise the efficacy of the LC policy; and how it has been able to add value to the economy, create jobs, develop local infrastructure, stimulate higher participation of indigenous companies and enhance the utilisation of local human and material resources. Data was collected for this study using the multiple-case study and semi-structured interviews techniques. The preceding paper from the authors reported results from only two cases; while a subsequent paper reports quantitative data from survey conducted on indigenes of the Niger Delta region, across three states, Bayelsa, Delta and Rivers states. However,
this paper reports finding from qualitative data collected via three cases and five interviews conducted with key informants/experts from Nigeria’s oil and gas industry.

2. Literature Review

Nigeria is Africa’s most populous nation, resource rich and has a population of over 140 million. It is made up of over 250 ethnic groups and chequered with a past history of: incessant political instability, bad governance, inadequate infrastructure and macro-economic mismanagement. The country has crude oil reserves of about 36 billion barrels and 19.2 billion cubic metres of natural gas. It is estimated that the country has realized about 600 billion US dollars since 1956 - when it first discovered oil in commercial quantity in Oloibiri, present day Bayelsa state- from oil and gas (Atakpu, 2007). Besides the large crude oil and natural gas deposits there are also deposits of gold, tin, gemstones, kaolin, bitumen and iron ore that can be harnessed to earn foreign exchange for the nation; although oil and gas has remained her main revenue base (Adebola et al. 2006). The Nigerian government earns income from oil through the sale of crude, gas; Petroleum Profit Tax (PPT), royalties and rent (from the industry partners and operators) (Agusto, 2002; Agusto, 2004; Obasi, 2003).

However, despite being a major oil producing country for decades, and accruing huge revenues from oil, Nigeria is ranked as one of the poorest countries in the world. Also, the lack of equitable distribution of the oil wealth and environmental degradation resulting from exploration activities have been identified as key factors aggravating actions from environmental rights groups, inter-ethnic conflicts, and civil disturbances from ethnic militias such as the Movement for the Emancipation of the Niger Delta (MEND) and Niger Delta Vigilante Force (NDVF) (NDDC, 2005). Warner (2007) noted that like Nigeria’s case, there are a number of oil rich countries where their governments have failed to translate their oil wealth into economic sustainability and higher standards of living; stressing that literature abounds on the issue of ‘resource curse’ and ‘Dutch disease.’

In literature, there are also some theories and propositions used in explaining the causal linkage between natural resources and civil conflicts such: ‘grievance’ theory (Gravin and Hausmann, 1996); ‘weak states’ theory (Fearon and Laitin, 2002, Karl 1997; Mahdavy, 1970); ‘separatist incentive’ hypothesis (Ross, 2003; Collier and Hoeffler, 2002, and Le Billion, 2001); and ‘looting’ hypothesis (Collier and Hoeffler, 2002). Utomi (2003) argued that like the case in Botswana, the government of Nigeria should create a ‘Future Fund’ into which the country made a mandatory deposit of every income earned above $15 per barrel of crude oil; stressing that this is beyond the stabilization of the value of the country’s currency, but ‘sterilization’ i.e. if Nigeria is to make progress, it must be forgotten that she earns oil money. Apart from these oil wealth failures, there was also the problem of capital flight, in the form of funds used in servicing the industry’s operations. There was therefore an urgent need to deregulate and liberalise the industry, especially the downstream sector to enable indigenous entrepreneurs with experience to come in and fill the gap that was evident (Okolo, 2006). Therefore, in early 2000, the government decided to introduce the Local Content policy.

The term Local Content (LC), aptly christened ‘Nigerian Content’ is defined by the Nigeria National Petroleum Corporation (NNPC) as ‘The quantum composite value added or created in the Nigerian economy through the utilization of Nigerian human and material resources for the provision of goods and services to the petroleum industry’ (NNPC Website, 2008). While it can be argued that this definition seems more of a textbook definition rather than a practical one; Chief Tony Obuya, one of the leading voices in the clamour for higher local content, views LC from the perspective of ‘value addition.’ He defines LC in two ways: ‘a set of deliberate orientation and actions to build domestic capacity relevant for service and product delivery comparable within that industry’ and ‘an opportunity to locally build a sustainable culture of service quality and capabilities exceeding customers expectations and comparable to international standards through key local personnel and management’ (Obuya, 2005). These definitions tend to be more precise, with emphasis placed on certain key indices, which provide insights into how the local content policy can be measured and examined as an academic concept. This position was corroborated by the Chairman of Nigeria’s House of Representatives Committee on Petroleum (Upstream), Hon. Tam Brisibe, quoted in the media to have stated that ‘Local content means different things to different people…the common denominator is value addition in the country’ (Business Day, 2008).

The concept of local content is neither new nor restricted to Nigeria, as it has for long been operated in several other oil-producing countries. Warner (2007:8) views LC from an angle of ‘community content’; stating that ‘Ultimately, community content is about realising a competitive advantage for an oil and gas development company in the eyes of both the local population and the country’s guardians of economic policy.’ He observed two distinct policy strategies for achieving higher local content vis-à-vis: firstly, where the state requires oil companies to give greater preference to those nationals and national suppliers who can compete internationally on cost, quality and timeliness i.e. what can be termed local content participation. This policy is implemented
through negotiated conditions and agreements between host countries and multinationals evidenced by issues such as lower pre-qualification and tender appraisals criteria and lower tariffs on imported machinery and semi-finished materials not available in the country. For instance, the Trinidad and Tobago case, where oil production operators “… shall give preference to national subcontractors where such are competitive with foreign bidders in skills, availability and price and meet technical and financial requirements…”; and the case in Nigeria where the proposed LC bill requires about 95 percent managerial and supervisory positions, 100 percent risk insurance and legal services to be handled by indigenous professionals (Warner, 2007:1).

The second policy strategy is where governments propose a “step change” i.e. gradual change of LC capacity achieved by consciously building the capability of national and local skills to access opportunities, considered as ‘local capability development’ (Warner, 2007:2). It can be argued that while the former strategy can be considered more of a “Push” model; the latter is more of a “Pull” model; and that the latter model is a potentially more progressive model that would involve considerable undertakings from the oil companies such as providing direct and prolonged assistance to indigenous firms to improve their quality and reliability; payment of premiums or subsidies to overcome some of the higher costs incurred in capacity development; payment of additional insurance premiums to support local suppliers and contractors; investing in physical infrastructure such as buildings and utilities; and providing financial services such venture capital, credit guarantees and short-term loans to local suppliers and contractors. Warner (2007:8) further stressed that ‘we should not be so naïve as to expect changes in local content and community investment practices to occur in the absence of the right dedicated incentives.’

However, we argue that while the latter model appears more progressive, it is worth considering that the multinational oil companies are not charity based-firms; but strictly profit-oriented organisations, driven by the main objective of maximising shareholders funds. Therefore, the model suggested by Warner may be difficult to implement, especially in a country like Nigeria where her recent experience from the issues of gas flaring prohibition has displayed laissez-faire attitude on the part of the multinationals and ineffective regulation from the authorities. We therefore suggest an effective LC policy that would be driven by an optimal balance of both incentives and strict regulations.

3. Research Method

The sample and case process - The data in this study was obtained from multiple-case studies conducted on three small to medium-sized firms operating within the industry and open-ended semi-structured interviews from five key informants. The methods were adopted due to their exploratory nature. Case study research is an approach that successfully enhances the understanding of complex issues and can further anchor what has been previously known, while emphasising detailed contextual analyses of limited conditions and their relationships (Dooley, 2002). In addition, the semi-structured and open-ended nature of the interviews have been found to provide researchers with large amounts of rich, fertile but disorganised data requiring the researcher’s skills in data organisation and analyses; and key informants interviews differ from other forms of interviews because the key informants are selected based on ‘their idiosyncratic, specialised knowledge rather than being randomly chosen’ (Janczkowicz, 2005:276).

Furthermore, due to lack of reliable data often identified as one of the challenges of studying SMEs (Watson, 1996); the three case companies and five key informants were recruited through personal contacts and snowballing i.e. identifying 1 or 2 participants and using them to link other participants. Similarly, they were selected because (1) the companies fit the conditions of having been in business for up to 3 years before the introduction of the LC policy and they had staff strength of less than 250 as provided by guidelines of the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) in Nigeria (Ihwa, 2009); (2) Each individual key informant had over 10 years of professional practice within and outside the Nigerian oil industry, with a cumulative experience of about 70 years.

This definition of SMEs was adopted by the researchers due to the firms’ unwillingness to disclose their financial details and for the purpose of simplification. The three cases were chosen to avoid ‘putting all our eggs in one basket’; to gain from the insights and robustness of case comparison; and to allay usual criticisms associated with single case study (Yin, 2003). Moreover, multiple case studies have also been identified as being ‘powerful to create theory because they permit replication and extension among individual cases’ (Eisenhardt, 1991:620).

In addition, a case protocol was prepared; which provided an overview of the study, field procedures, case study questions and a guide for the case study report, as suggested by Yin (2003); and an interview guide was prepared to guide the semi-structured interviews. The unit of analysis in this study was the individual case companies and
interviews. Data for the case studies were collected via a combination of information from their websites materials, company documents, archival records and interviews with top management staff of the case companies; and both the case studies and interviews were conducted between the months of September 2008 to January 2009. For the purpose of this article and confidentiality, the case companies have been termed Alpha, Beta and County; while the key informants were coded KI01 to KI05. The case profiles are shown in Table I below:

4. Results & Findings

4.1 Increased Contract Awards to Existing Small to Medium-Sized Firms

From the data gathered, it was found that from all the cases studied, the LC policy has resulted in increased contract awards to the companies; however, this cannot yet be considered as higher SMEs participation, because it only led to increased contract awards to existing companies, without significantly enhancing the participation of new entrants into the industry, as described by the key informants. Notwithstanding this finding, all the case companies and key informants believe that the capacity of indigenous firms remains hugely underutilised, and that more still needs done to promote higher participation of new entrants; because the industry is still dominated by foreign firms handling projects which could ordinarily be undertaken by local firms. As one of the key informants stated:

“It is not enough to say that because existing indigenous companies are now getting a few more contracts then that solves the local content issue. It is far deeper than that. There are far more projects that can still be handled by indigenous firms that are not yet being handled today, instead they are given to foreign firms…”

Additionally and with respect to the high rate of unemployment experienced in Nigeria, it is expected that the oil and gas sector would help create job opportunities for the unemployed, especially youths from the oil producing Niger Delta region. Therefore the slight increase in contract awards to existing indigenous firms cannot be viewed as significant enough to help in curbing the crass unemployment issues in the country. Government needs to further encourage the local production and fabrication of required materials and equipments in Nigeria. This can be done by enhancing a more friendly business environment such as the granting of special concessions, free land and tax breaks for companies who agree to come and set up production factories. The resultant effect of this is that, it would not only develop of the country’s presently comatose industrial base; but would also provide sustainable job opportunities for the teeming unemployed youths and prevent incidences of civil disturbances, restiveness, militancy, kidnapping and other social vices that have all become prevalent in the country as a result of massive unemployment, particular within the oil producing communities.

4.2 Joint Venture and Partnerships with Foreign Firms

We found that all the 3 cases studied were involved in some form of joint venture or partnership arrangement with one foreign firm or another; and most of the partners are in Europe and North America, with companies based in countries such as Russia, Germany and Canada. In addition, the study revealed that these partnerships and alliances enhanced the credibility of indigenous firms and boosted ability of the case companies in winning projects, bids and contracts; and they also serve the more important purpose of stimulating capacity building, particularly in terms of knowledge and technology transfers. The study also revealed that all the companies experienced increased man-hours and the joint venture arrangements enhanced their capacity to easily meet, and in some cases, surpass targets, industry (ISO) standards and quality. This point was emphasised by Ogiemwonyi (2001), who emphasised the need for government and multinationals to facilitate the process of these joint ventures, partnerships and alliances. The idea behind this is to forestall a situation where indigenous firms engage in unhealthy alliances with just any foreign firm in a bid to desperately gain credibility in the industry, without thoroughly considering salient issues such as compatibility; technical expertise requirements; knowledge transfer expectations; and previous ethical records and transparency considerations associated with such foreign firms.

4.3 Utilisation of Local Human Resources and Job Creation

As expected, more contract awards have led to the creation of a few more jobs. In all cases, it was found that staff employed increased since the policy was introduced. For instance staff strength grew from about 12 to 63, 15 to 39, and 18 to 44 for Alpha, Beta and County respectively. Nonetheless, we argue that this is, but, ‘a tiny drop in the ocean’: considering Nigeria’s unemployment rate and the role that SMEs in the oil industry can play in reducing the sky-rocketing unemployment index. From the interviews conducted, the key informants were also of the opinion that if the opportunities from the policy are fully harnessed by smaller firms, it would help in
resolving more than half the country’s unemployment problems. Presently the industry experiences a low capital-labour ratio and represents only 1.3 percent of total employment in the country, as noted by Odulari (2008), and this ratio is expected to increase as the LC policy becomes effectively implemented and better harnessed. As KI04 puts it:

“…See, this (oil and gas) sector holds the key to solving over fifty percent of Nigeria’s unemployment problems. But the problem is that once they see an oyinbo man they think he must know better than our locally trained experts. Although I know we don’t have enough local experts, but we must also realise that most of these so called expatriates are not even graduates. Most of them are mere technicians and holders of trade test certificates. So we just have to keep engaging the system to change the orientation and make thing possible for local firms.”

The study also identified another crucial problem of ‘staff poaching’ on the part of the multinationals. Data from all the cases showed that there has been a major challenge of high employee turnover due to movements of staff out of the firms. They lament that after they must have spent huge amounts of money training and developing the skills and capacity of their employees, they are usually poached by the bigger oil companies; as these individuals willingly move on to join multinational firms in order to seek ‘greener pastures.’ As such, the small to medium-sized indigenous oil servicing firms sadly represent a platform for employees seeking to learn the job, develop hands-on skills and gain useful industry experience; after which they become more marketable and attractive to the multinationals, who hitherto would have rejected such employees, citing their lack of experience. As stated by a director in one of the case companies:

“…Imagine you spend millions of Naira training a young graduate to becoming very competent on his job, then after you finish spending that sort of amount he tells you he’s leaving for Shell, Chevron or Schlumberger, if you are in my shoes how would you feel? We have devised a strategy of now getting them to sign a bond with the company, so that when we finish training them, they won’t just wake up one morning and tell me they are leaving…”

Although this is one challenge major often faced by small businesses generally, as literature refers to them as seedbeds for larger companies; notwithstanding, small firms operating in the oil industry also need to find ways to adequately compensate and motivate their staff in order to forestall the associated high staff turnover rates.

4.4 Technical Capabilities and the Nigerian Educational System

Related to the issue of utilisation of local human resources discussed above; the study also revealed that the oil sector in Nigeria lacks adequate locally trained experts and skilled manpower, considering the amount of technical expertise required in the industry. This has been attributed to the falling standards of universities and other tertiary institutions in the country. Although 3 of the key informants strongly opine that the higher institutions churn out half-baked graduates; the other 2 key informants, especially KI01 remarked that he would not like to pass a ‘blanket’ assessment by saying all Nigerian institutions are not technically competent. He emphasised that having worked in top management positions with a multinational oil servicing company within the Nigerian oil and gas industry and other locations overseas, and having employed several graduates over the years, he could state that some Nigerian universities fared far better than others in terms of the quality of their graduates. In his words,

‘…I must say there is a huge difference between engineers from one university to another…when I talk of huge difference it’s not just like schools competing. No, it’s just that in some schools engineers know what they are talking about…in some other schools they just don’t know what they are talking about…’

There also appeared to be a consensus amongst the key informants that the main problem with Nigerian tertiary institutions was that they are grossly under-funded and ill-equipped to produce the quality of graduates needed for the industry. To buttress this point, it was stated that the cost of a workstation from Schlumberger is beyond the financial reach of Nigerian universities. Furthermore, KI05 noted that ‘oil and gas business is high risk business’, requiring skilled technical manpower and that only an effective educational system that understands the human resource needs of the industry and tries to match their resources to meeting those needs, can enhance the prospects of higher local content; without which the whole idea of local content would be a mirage, only ending as ‘prospects’.

4.5 Financial Inadequacy and Lack of Support Structures

There is also the crucial challenge of inadequate financing options available to small to medium-sized firms, as identified by (Oladele, 2001; Heum et al., 2003; Olorunfemi, 2001). From the data collected, 3 directors and the
key informants stressed the need for commercial banks to do more in the area of granting single digit loans to companies and upgrade their knowledge in providing other services such as insurance services by creating a special oil and gas insurance business department; and their ability to assist in loan syndication for projects requiring huge capital outlay. In the words of KI01:

“…We have seen a situation where some of our banks do not even possess dedicated oil and gas desk to handle oil and gas matters; and this is because they do not really understand how business operates within the industry. Unlike in the developed countries, banks employ experts from the industry to man such desks and provide them with advice on the nature of projects they can undertake…”

In similar instances they remarked that unlike the foreign firms which are often backed by credit lines from commercial banks in their home countries, indigenous firms cannot boast of such support from indigenous commercial banks. The director interviewed in one of the case companies (Beta) noted that the banks even prefer to offer loans to foreign servicing firms, than local firms that have the capacity to grow the productive and industrial base of the nation. Furthermore, government needs to live up to her responsibilities of providing adequate social and infrastructural amenities in the areas of power supply, better transportation systems like roads, rail and coastal networks, organised markets and investments in education. The inadequacy of these support structures lead to the very high cost of doing business in Nigeria, and their provision would drastically reduce the cost of operation and improve the business climate, as well as enhancing human capital development, better living standards and sustainable economic growth.

4.6 Local Content Act

In addition, the lack of an Act of Parliament is still a major challenge inhibiting the efficacy of the LC policy. At the moment, the National Petroleum Investment Management Company (NAPIMS) and the Department for Petroleum Resources (DPR) produce the relevant implementation guidelines and regulations for the LC policy from time to time. These guidelines sometime result into ‘shifting of the goal posts’ at the whims and caprices of the regulators and this tends to have detrimental effects on SMEs operating in the industry and deters prospective firms.

In support of this point, Heum et al. (2003) and Agusto (2004) observed that once new guidelines are released, and companies start to make necessary changes in line with the guidelines, another abrupt guideline may be released, which may even render the previous one unwanted; thus impacting negatively on their operations. It is believed that an Act of Parliament would help streamline both the guidelines and the activities of the regulators, as well as enhance a more effective and efficient implementation, monitoring, and realisation of the policy thrusts. In addition, there are ongoing discussions regarding reforms in the industry, with a Petroleum Sector Bill submitted to the National Assembly, which is expected to incorporate the issue of the LC policy. Despite this attempt, and how it is finally named and passed into law, it is worth noting that the critical issue here is that the act should serve as a cursor to how the LC policy is defined, implemented and subsequently measured in terms of performance.

4.7 Awareness and Communication of Opportunities

The results also reveal that only individuals already operating in the industry are aware of the opportunities available to be exploited. There is inadequate awareness of the opportunities in the sector which has arisen from the introduction of the LC policy. It can be argued that if there was more communication and awareness of the opportunities, more investors, entrepreneurs and SMEs would be interested in participating and taking advantage of the opportunities, to the subsequent benefit of the nation; this position was also supported by Ariweriokuma (2009).

The crucial questions that need to be asked here are the following: who would be responsible for disseminating information about opportunities in the oil and gas industry? Is it the government which would earn income from new companies? Is it the already existing SMEs, who may technically be opening the doors to their competitors? Or would it be the multinationals that are unwilling to fully implement the LC policy and continue to deter local firms with cumbersome prequalification requirements? We reckon that it would be a combination of all of the parties, because at the end of the day, government needs to be responsible for the full implementation of the policy which has far-reaching economic implications. Also, existing SMEs themselves can create the awareness of inherent opportunities, as there may be opportunities in areas where they do not have requisite expertise to operate. Therefore, by inviting a new entrant with expertise, they may also be opening their doors for future collaborations, thus enhancing a thriving industry. Furthermore, multinationals may benefit from having better value and expertise for their money, from new entrants as well. In the final analysis, though, it is the
responsibility of government to implement the LC policy, via its regulatory agencies; it should be conducted in such a way that enhances win-win situations for the all stakeholders - multinationals, indigenous businesses and value added for the nation at large.

4.8 Institutional, Organisational and Personal Bottlenecks

The study found that certain bottlenecks had the tendency of limiting the participation of SMEs within the industry. For instance, whilst the LC policy aims at enhancing opportunities for higher local participation within the industry, the situation where the Directorate of Petroleum Resources (DPR) and NAPIMS arbitrarily charge and increase registration fees, and other surcharges on indigenous oil servicing firms would not allow the policy to thrive and be well harnessed. Likewise, a situation where new entrants are asked to provide bank statements of 3 to 5 years as part of the prequalification requirements, for tenders and bids, is rather stringent. In addition, the inability of regulating authorities to effectively supervise and monitor the implementation of the LC policy and ensure strict adherence to guidelines, also hinders the policy efficacy. This has subsequently led to the unwillingness or, rather, laissez-faire attitude on the part of the multinationals who willingly fail to comply with relevant guidelines regarding the LC policy, preferring to pay penalty fines which are ‘peanuts’ and insignificant to their balance sheets. However, we see this attitude as being rooted in the ineffective policy implementation strategy of the regulatory agencies and their weak enforcement of guidelines. Furthermore, the ‘one-man-business’ mentality of the Nigerian business man is another factor found to influence the participation of SMEs in such an industry, considering the requirement of certain measure of expertise, financial capability and alliance prospect.

5. Implication & Concluding Remarks

We do not attempt to form any generalisations from this study; nonetheless, we have attempted to create a platform upon which further studies can be conducted to explore in more detail, the challenges facing indigenous SMEs operating in the oil and gas industry and the impact of local content policy. We have also provided useful insights for the future direction of the LC policy and its implementation. In summary, the objective of this article has been to examine the implications of the ‘Local Content’ policy in promoting higher participation of Small to Medium-Sized companies in the Nigerian Oil and Gas industry.

Therefore, we conclude that the LC policy has had very little positive implication in enhancing higher SMEs participation in the industry. Hence, we highlight: the need for the enactment of the Local Content or Petroleum Sector Act to help galvanise the reforms in the industry; more effective supervision and monitoring of the policy guidelines by regulatory authorities; lessening the pre-qualification requirements and the conditions for tenders and bids; the need to invest massively in the educational system, in order for the tertiary institutions to be able to produce the needed quality of graduates; reduction in the registration fees charged by regulatory authorities such as DPR and NAPIMS; the provision of needed social and infrastructural support systems, in order to help reduce the cost of doing business and encourage a more friendly business climate; the access to financial instruments for SMEs operating in the industry, in terms of providing access to single-digit financing for projects; and the facilitation of quality partnerships and alliances that can enhance higher levels of technology transfer and capacity building.

This paper represents an initial step towards enhancing our understanding of the implications of the LC policy on SMEs promotion in the oil and gas industry, within the Nigerian context; as such, further research would still be necessary to generate valid constructs and empirically tested models for assessing the efficacy of the policy. Also, further research can be conducted using more detailed research techniques, and on the impact of the policy on other industry stakeholders, in order to enhance generalisation and theory building; especially in the area of associating LC policy to tangible implications for ordinary citizens such as indigenes of the oil producing areas.

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Esho, B. (2006). Local Content Policy, Best Thing to Happen to Oil and Gas Sector, The Sun Newspaper, November 23.


**Further Reading**


Table I. Case Profile

<table>
<thead>
<tr>
<th>Case Firms</th>
<th>Location</th>
<th>Year of Incorporation</th>
<th>Staff Strength</th>
<th>Services and Specialisation</th>
<th>Profile of Owners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alpha</td>
<td>Port-Harcourt</td>
<td>1995</td>
<td>43</td>
<td>Sub-surface services, Accurate reservoir characterization, Production Optimization, FEED, EPC Drilling and Seismic, Rig and Well maintenance, Data analyses.</td>
<td>Previously worked for one of the multinational oil companies for thirteen years.</td>
</tr>
<tr>
<td>Beta</td>
<td>Warri</td>
<td>1993</td>
<td>39</td>
<td>Started out trading stocks of excess pipes; later importing pipes, and currently represents 12 manufacturers with capacity of processing 10 million tonnes of steel per annum.</td>
<td>Worked in the private sector for foreign oil servicing firm and later, with two multinationals.</td>
</tr>
</tbody>
</table>